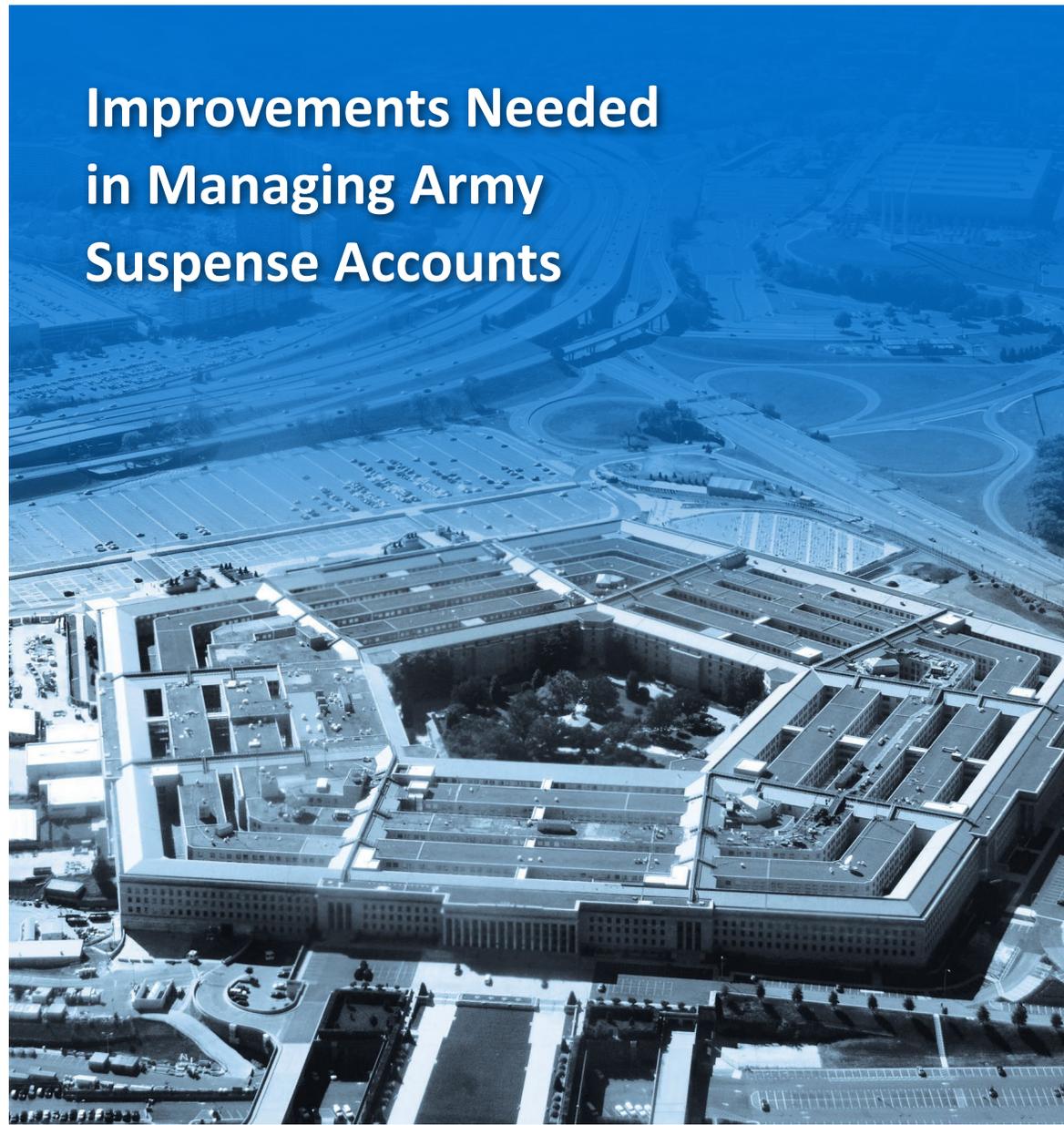




# INSPECTOR GENERAL

*U.S. Department of Defense*

JUNE 27, 2016



## Improvements Needed in Managing Army Suspense Accounts

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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# Results in Brief

## *Improvements Needed in Managing Army Suspense Accounts*

June 27, 2016

### Objective

We determined whether DoD had controls in place to record Department of the Army suspense account balances on the proper component-level financial statements. In addition, we determined whether the accounts were used for the intended purpose and transactions were resolved in a timely manner.

### Findings

The Defense Finance and Accounting Service (DFAS) did not have sufficient controls in place to record Army suspense account transactions on the proper component-level financial statements. This occurred because DFAS personnel did not perform an analysis of historical data to determine what portion of the balances should be posted to the Army financial statements or to other components' financial statements. DFAS-Indianapolis (DFAS-IN) also did not identify transactions that supported Army suspense account balances. Specifically, DFAS-IN personnel prepared \$94 million in unsupported adjustments to match Army suspense account balances to Treasury balances and included an additional \$79.10 million in transactions they could not support. This occurred because DFAS-IN did not require accounting activities to report detailed transactions or include all suspense transactions in the Army Fund Balance with Treasury Tool. In addition, DFAS-IN personnel did not verify accounting activities researched and cleared suspense transactions within 60 business days because they did not track clearance actions of accounting activities. As a result, DFAS-IN personnel misstated the FY 2014 Army General Fund Financial Statements. Additionally, transactions in suspense accounts represent an area of uncertainty

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### Findings (cont'd)

that increases testing procedures and the likelihood of material misstatements on financial statement audits. The transactions could also conceal problem disbursements and erroneous payments.

DFAS-IN incorrectly used three suspense accounts for other than their intended purpose. This occurred because DoD did not use or request use of other fund accounts after receiving Treasury approval for suspense accounts. As a result, DFAS-IN misstated Army financial statements by \$189.87 million on September 30, 2014, and \$223.70 million on September 30, 2015.

Additionally, DFAS-IN inappropriately used journal vouchers, ranging in value from \$55.67 million to \$1,837.72 million, to reduce Intra-governmental Payment and Collection suspense account balances at month's end in the Suspense Account Report and in performance metrics information. This occurred because DFAS-IN established a maximum \$50 million threshold for the monthly reporting of these suspense account balances. As a result, DFAS and Office of the Secretary of Defense managers did not have accurate information to monitor progress in reducing suspense account balances.

### Recommendations

We recommend the Director, DFAS-IN, perform a trend analysis to support allocating suspense account balances to proper component-level financial statements, require accounting activities maintain details on suspense transactions, include detailed transactions from legacy systems in the Army Fund Balance with Treasury Tool, and implement a formal process to identify and track suspense transactions to be cleared. The Director, DFAS-IN, should also coordinate with the Under Secretary of Defense (Comptroller) to establish special and deposit fund accounts to more appropriately record and report non-suspense account transactions.

### Management Comments and Our Response

Comments from the Director, DFAS-IN, addressed all specifics of the recommendations and no further comments are required. See the Recommendations Table on the next page.

## ***Recommendations Table***

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Director, Defense Finance and Accounting Service–Indianapolis		A.1, A.2, A.3, A.4, A.5, B.1, B.2, B.3



**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500**

June 27, 2016

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/  
CHIEF FINANCIAL OFFICER, DOD  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Improvements Needed in Managing Army Suspense Accounts  
(Report No. DODIG-2016-103)

We are providing this report for information and use. The Defense Finance and Accounting Service did not have sufficient controls in place to record Department of the Army (Treasury Index 21) suspense account balances on the proper component-level financial statements. In addition, some suspense accounts were not used for the intended purpose and transactions in the suspense accounts were not always resolved timely. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. Comments from the Director, Defense Finance and Accounting Service–Indianapolis, conformed to the requirements of DoD Directive 7650.03; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 (DSN 329-5945).

A handwritten signature in cursive script that reads "Lorin T. Venable".

Lorin T. Venable, CPA  
Assistant Inspector General  
Financial Management and Reporting

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# Introduction

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## Objective

We determined whether DoD had controls in place to record Department of the Army (Treasury Index [TI] 21)<sup>1</sup> suspense account balances on the proper component-level financial statements. In addition, we determined whether the accounts were used for the intended purpose and transactions were resolved in a timely manner. This audit is one in a series evaluating the use of DoD suspense accounts. See Appendix A for a discussion of the scope and methodology and for prior audit coverage. See the Glossary for definitions of technical terms used in the report.

## Background

Office of Management and Budget (OMB) Circular No. A-11<sup>2</sup> states that general, special, and trust fund collections and disbursements may be held temporarily in clearing accounts pending clearance to the applicable account. Clearing accounts are non-budgetary accounts that are included in the budget once they are posted to either a receipt or expenditure account.

The Department of Treasury (Treasury) establishes suspense accounts to temporarily hold unidentifiable general, special, or trust fund collections that belong to the Federal Government until they are classified to the proper receipt or expenditure account by the Federal entity. Suspense accounts are identified by Treasury Account Symbol (TAS),<sup>3</sup> which consists of the two-digit Treasury Index along with an “F” preceding the last four digits of the “3800-series” fund group. See Appendix B for more details on fund groups. The Army reported the following balances in five suspense accounts at the end of FY 2014 and FY 2015.

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<sup>1</sup> Funds and accounts authorized by Acts originating in the Armed Services committees of the Congress and appropriated to DoD are identified using the following Treasury Indexes: “97,” Defense Department; “17,” Navy; “21,” Army; and “57,” Air Force.

<sup>2</sup> OMB Circular No. A-11, “Preparation, Submission, and Execution of the Budget,” June 2015.

<sup>3</sup> The TAS is an identification code assigned by the Treasury, in collaboration with the OMB and the owner agency, to an individual appropriation, receipt, or other fund account. All financial transactions of the Federal government are classified by TAS for reporting to Treasury and OMB.

Table 1. Army Suspense Account Totals (in millions)

Account	Title	9/30/2014 Net Value	9/30/2015 Net Value
21F3845	Proceeds of Sales, Personal Property (Personal Property Sales Proceeds)	\$0.15	\$0.17
21F3875 <sup>1</sup>	Budget Clearing Account	197.42	760.03
21F3880	Unavailable Check Cancellations and Overpayments (Check Cancellations and Overpayments)	1.59	0.03
21F3882	Uniformed Services, Thrift Savings Plan (Uniformed Services TSP)	(3.46)	24.94
21F3885 <sup>2</sup>	Intra-governmental Payment and Collection (IPAC) System	(10.66)	(9.47)
<b>Total</b>		<b>\$185.04</b>	<b>\$775.70</b>

Source: DoD OIG analysis

Note: Net value is the sum of the debit and credit transactions.

<sup>1</sup> 21F3875 consists of two subaccounts: 21F3875.1, Budget Clearing Account–Nonexempt; and 21F3875.2, Budget Clearing Account–Exempt. The balance in the 21F3875.1 subaccount increased from \$7.70 million to \$536.50 million in the 2 years shown largely due to an error in reporting military pay taxes.

<sup>2</sup> The Army only uses 21F3885.7.

## ***Defense Finance and Accounting Service***

The Defense Finance and Accounting Service (DFAS) executes statutory (legal) and regulatory financial reporting requirements and prepares financial statements for DoD. DFAS monitors, reconciles, and reports suspense account information to the Treasury. DFAS also prepares both Agency-wide financial statements and separate financial statements for component-level reporting entities, such as Army, Navy, and Air Force general funds and working capital funds.<sup>4</sup>

DFAS–Indianapolis (DFAS-IN) personnel prepare and post journal vouchers in the Defense Departmental Reporting System (DDRS) and use DDRS to prepare Army financial statements. However, the Army still has primary responsibility to control the funds provided by Congress and to comply with laws and regulations that limit how and when it uses its funds.

## ***Department of Treasury Waiver***

According to the June 2007 Treasury Bulletin, the Treasury discontinued the use of suspense accounts effective July 2008, unless an agency submitted a waiver and had it approved. The Treasury determined that the use of certain suspense accounts led to a delay in accurately reporting funds to the proper accounts and discontinued the use of the Budget Clearing Account (F3875) and IPAC (F3885) suspense accounts, unless an agency was granted a waiver.<sup>5</sup> Once an agency submitted a waiver request, OMB and Treasury personnel reviewed the

<sup>4</sup> DoD reports most DoD-wide appropriations in TI-97 on the Agency-wide financial statements.

<sup>5</sup> Treasury was silent on other clearing (suspense) accounts.

submissions and granted approval for the agency to utilize the suspense accounts if the Treasury determined there was a justifiable business need. DoD submitted a waiver request in January 2008, and in April 2008, the Treasury approved the waiver for the use of the Budget Clearing Account for these transactions:

- Federal taxes;
- revenue sources—income from agricultural and grazing leases, sale of forestry products and recyclable materials, and income from royalties and trademarks;
- funds withheld for the Treasury offset program;
- unidentifiable payments from contractors, individuals, foreign countries, and international organizations that belong to the Federal Government; and
- rejected transactions from monthly system errors.

In addition, the Treasury approved the DoD’s use of the IPAC suspense account to process transactions with errors from the monthly IPAC reporting process. As part of the approval process, the Treasury required DoD to annually certify the balances for the Budget Clearing Account and IPAC suspense accounts, including justification for any transactions more than 60 business days old. Because not all of the Army suspense accounts hold problem transactions that need to be corrected, DFAS differentiates between suspense accounts and describes them as either “nonexempt” or “exempt from Treasury requirements.”

### ***Nonexempt Accounts***

DFAS used three suspense accounts<sup>6</sup> to temporarily hold transactions that contain invalid or missing information that prevents accounting activities from properly accounting for them. Table 2 describes the purpose of the three nonexempt accounts.

*Table 2. Nonexempt Account Descriptions*

Nonexempt Account	Description
Budget Clearing Account–Nonexempt (21F3875.1)	To record unidentifiable collections from individuals, contractors, foreign countries, and internal organizations that belong to the Federal Government.
Check Cancellations and Overpayments (21F3880)	To record credits from Treasury for checks issued by disbursing offices that were not negotiated within the 1-year statutory period or checks that payees reported as lost, stolen, mutilated, or not received.
IPAC system (21F3885.7)	To record IPAC transactions that cannot be posted to the correct line of accounting, usually due to the lack of a valid TAS in the IPAC system.

Source: DFAS-IN

<sup>6</sup> In this report, we refer to 21F3875.1 and 21F3875.2 as separate suspense accounts.

An accounting activity is responsible for citing a valid line of accounting<sup>7</sup> on a disbursement (or collection) transaction before processing it. However, when a transaction is processed with missing information, the transaction cannot post to the correct appropriation and is held in a nonexempt suspense account. DoD activities attempt to clear<sup>8</sup> transactions in those accounts within 60 business days of them entering a suspense account. DFAS also reports the aging<sup>9</sup> of uncleared transactions in these suspense accounts on the monthly Suspense Account Report (SAR).

### ***Exempt Accounts***

DFAS-IN maintains three other suspense accounts for funds from revenue-generating programs and tax and TSP withholdings that have either been collected or disbursed, but are not yet available for their intended purpose. Transactions in these accounts do not meet the definition of what the Treasury considers a suspense account because they are not problem transactions that need to be corrected. Table 3 describes the types of transactions within these three accounts.

*Table 3. Exempt Account Descriptions*

Exempt Account	Description
Personal Property Sales Proceeds (21F3845)	Holds proceeds from the sale of personal property, which can be applied to replace similar property during the fiscal year in which the property is sold and one fiscal year thereafter.
Budget Clearing Account—Exempt (21F3875.2)	Holds revenues from agricultural leases, the sale of forest products and recyclable materials, and income from royalties and trademarks.
Uniformed Services TSP (21F3882)	Holds military employee payroll deductions of Thrift Savings Plan contributions and loan repayments.

Source: DFAS-IN

Since these accounts do not maintain problem transactions that need to be corrected, DFAS considered these accounts “exempt” from having to be cleared within 60 business days. In this report, we will discuss nonexempt (Finding A) and exempt (Finding B) suspense accounts separately.

<sup>7</sup> The line of accounting is used to identify the funding source associated with an organization’s budget to ensure accurate accounting transactions.

<sup>8</sup> After a suspended transaction is corrected and transferred to the proper account, DFAS considers the transaction “cleared” from the suspense account.

<sup>9</sup> Transactions are aged according to how long the transactions have been in suspense by category, such as zero to 30 days or 31 to 60 days.

## **Reporting Suspense Accounts**

Accounting activities<sup>10</sup> are responsible for properly documenting, supporting, and clearing transactions held in suspense accounts. The accounting activities also report suspense account balances and the aging of transactions to DFAS-IN on a monthly basis. Based on consolidated suspense account information, DFAS-IN personnel prepare and submit the monthly SAR to senior DFAS management personnel. They then generate financial operations performance metrics for the Army, which are sent to the Office of the Secretary of Defense (OSD) and combined with similar information from the other DFAS centers. Annually in October, the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer (OUSDC) certifies the suspense account balances to Treasury for the preceding yearend. Included in the certification is justification why transactions are more than 60 days old.

Army suspense accounts impact the Army General Fund Balance Sheet and related notes, as well as the Statement of Budgetary Resources (SBR). See Appendix C for a detailed discussion of how the Army suspense accounts impact the financial statements and the materiality of the reported Army suspense account balances.

## **Review of Internal Controls**

DoD Instruction<sup>11</sup> requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses in how DFAS managed transactions in suspense accounts and recorded suspense account balances on the financial statements. Specifically, DFAS did not have controls in place to record Army suspense account transactions on the proper component-level financial statements. Additionally, DFAS-IN did not have all the detailed transactions that supported the Army suspense account balances reported on the Army's financial statements or research and clear transactions posted to the Army suspense accounts within 60 business days. DFAS-IN also incorrectly used suspense accounts to record program revenues as well as tax and TSP withholdings and remittances and understated IPAC transactions reported in Army and DoD-wide (TI-97) suspense accounts. We will provide a copy of the report to the senior officials responsible for internal controls in DFAS and the Department of the Army.

<sup>10</sup> Accounting activities are defined as Army Finance and Accounting Offices, DFAS-IN departmental level activities, and DFAS field organizations.

<sup>11</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

## Finding A

### Insufficient Controls Over Suspense Accounts

DFAS personnel did not have sufficient controls in place to:

- record Army suspense account transactions on the proper component-level financial statements. Specifically, DFAS personnel included transactions that did not belong to Army on its FY 2014 General Fund Financial Statements and also reported transactions that belonged to the Army on other components' financial statements. This occurred because DFAS personnel did not perform an analysis of historical data to determine what portion of the balances should be posted to the Army financial statements.
- identify the detailed transactions that support the suspense account balances. Specifically, DFAS-IN personnel prepared \$94 million in unsupported adjustments to match Army suspense account balances to Treasury balances, and included an additional \$79.10 million in transactions they could not support. This occurred because DFAS-IN personnel did not require the responsible accounting activities to report detailed transactions or include all suspense account transactions in the Army Fund Balance with Treasury Tool (AFT).
- verify that accounting activities responsible for the suspense transactions researched and cleared the transactions within 60 business days as required by the Treasury Financial Manual. This occurred because DFAS-IN personnel did not have a formal process to track which suspense account transactions each of the accounting activities were responsible for clearing.

As a result, DFAS-IN personnel misstated the FY 2014 Army General Fund Financial Statements. Additionally, transactions that reside in suspense accounts represent an area of uncertainty that increases testing procedures and the likelihood of material misstatements on financial statement audits. Also, uncleared transactions could conceal problem disbursements and erroneous payments.

### Transactions Not Properly Recorded on DoD Financial Statements

DFAS personnel did not have sufficient controls in place to record Army suspense account transactions on the proper component-level financial statements. Specifically, DFAS personnel included transactions that did not belong to Army on its FY 2014 General Fund Financial Statements, and also reported transactions that belonged to the Army on other components' financial statements.

## Some Transactions in Army Suspense Accounts Belonged to Other Components

DFAS-IN personnel recorded suspense account transactions in the Army suspense accounts that did not belong to an Army activity. Specifically, 24 of the 62 transactions we sampled<sup>12</sup> from two Army suspense accounts<sup>13</sup> as of September 30, 2014, did not belong in an Army account. For example, one sample transaction was a disbursement for \$12,400 that did not have a valid line of accounting. Without a proper line of accounting, the transaction posted to the Budget Clearing Account–Nonexempt (21F3875.1). Since the transaction was processed through the General Fund Enterprise Business System, the Army’s primary accounting system, it suspended in an Army suspense account. According to DFAS-IN personnel, when a transaction is processed through an Army system with an error, the system logic will post the transaction to an Army suspense account. However, once the accounting activity researched the transaction and corrected the line of accounting, the transaction cleared to a DoD-wide (TI-97) account. The 24 transactions that eventually cleared to other than an Army account had a net value of \$59,256, but an absolute value of \$1.66 million.<sup>14</sup> Table 4 identifies the disposition of the 62 transactions that resided in an Army suspense account as of September 30, 2014, that had cleared by March 31, 2015.

DFAS-IN personnel recorded suspense account transactions in the Army suspense accounts that did not belong to an Army activity.

Table 4. Army Suspense Account Clearance Information

Suspense Account	Sample Transactions Reviewed	Treasury Index That Transaction Cleared To			
		Army	Navy	Air Force	DoD-wide
Budget Clearing Account–Nonexempt (F3875.1)	48	25	1	0	22
IPAC (F3885.7)	14	13	0	0	1
<b>Total</b>	<b>62</b>	<b>38</b>	<b>1</b>	<b>0</b>	<b>23</b>

Source: DoD OIG analysis

Eleven of the 24 transactions, with a net value of \$151,024, were related to DoD Foreign Military Sales and each of the 11 transactions eventually cleared to a DoD-wide appropriation (TI-97). The 11 transactions were in suspense for an average of 862 business days.

<sup>12</sup> The 62 transactions are part of the 120 total transactions we statistically sampled from the three nonexempt suspense accounts. We did not project on the statistical sample. See Appendix A for additional information on the samples.

<sup>13</sup> None of the Check Cancellations and Overpayments samples tested (40 transactions) cleared the suspense account as of March 31, 2015. In addition, 14 Budget Clearing Account–Nonexempt and four IPAC transactions did not clear or did not have adequate documentation for testing.

<sup>14</sup> Absolute value is the sum of the positive values of the debit and credit transactions without regard to the sign (plus or minus).

## ***Some Transactions Reported on Other Components' Financial Statements Belonged to the Army***

DFAS reported suspense transactions on other DoD components' financial statements that eventually cleared to an Army account.<sup>15</sup> DFAS–Columbus personnel stated that approximately 35 percent of the suspense account transactions that processed through the Mechanization of Contract Administration Services system<sup>16</sup> in FY 2014 and posted to the DoD-wide Budget Clearing suspense account (97F3875.1) eventually cleared to an Army General Fund appropriation. However, in preparation of the financial statements, DFAS–Columbus personnel attributed the entire balance of Mechanization of Contract Administration Services activity in the suspense account, \$41.58 million, to the FY 2014 DoD-wide appropriation and did not allocate any to the Army General Fund. Therefore, 35 percent of the suspense account transactions that processed through the Mechanization of Contract Administration Services in the DoD-wide Budget Clearing suspense account as of September 30, 2014 (\$14.55 million of the \$41.58 million), should have been allocated to the Army and reported on the FY 2014 Army General Fund Financial Statements.

In addition, Army transactions were incorrectly posted to the Navy General Fund IPAC suspense account (17F3885) due to a Defense Cash Accountability System error. The error caused 92 transactions, with a net value of \$29,110, to be reported on the FY 2014 Navy General Fund Financial Statements instead of the FY 2014 Army General Fund Financial Statements.

## **DFAS Did Not Perform Analysis to Allocate Suspense Account Balances**

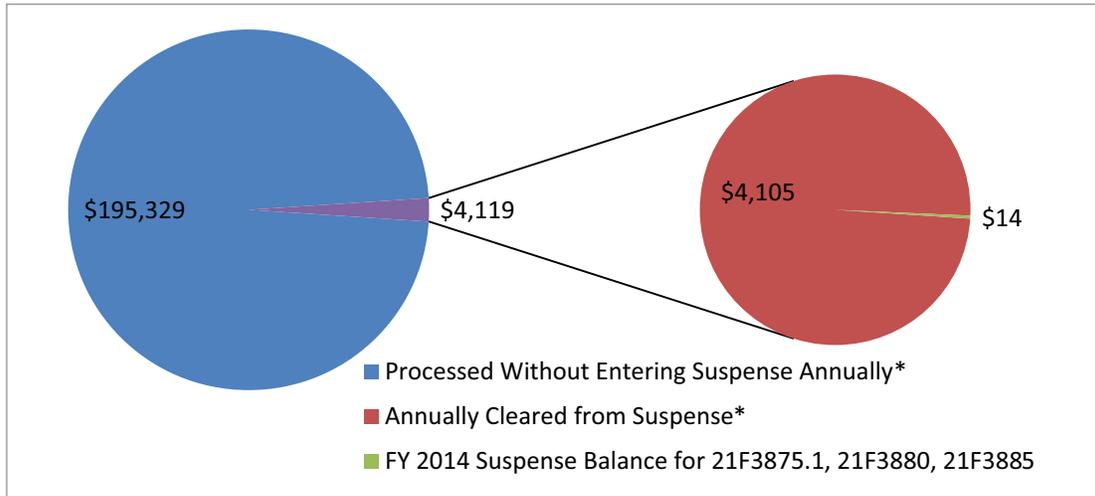
DFAS personnel did not perform an analysis of historical data to determine what portion of the balances should be posted to the Army financial statements. DFAS-IN personnel stated that the number and dollar value of Army suspense account transactions did not warrant the dedication of resources for the analysis. Figure 1 compares an estimate of the dollar value of Army disbursement and collection transactions processed and cleared by DFAS-IN in FY 2014 with those that entered a suspense account and remained at yearend. Specifically,

<sup>15</sup> These two instances were identified by DoD Office of Inspector auditors on two of the other audits evaluating the use of DoD suspense accounts. A more detailed discussion of these two instances will be in those audit reports.

<sup>16</sup> The Mechanization of Contract Administration Services system is an integrated system supporting post-award contract administration used by the Defense Contract Management Agency and DFAS–Columbus.

of the \$199.45 billion in Army transactions DFAS-IN processed during FY 2014, \$4.12 billion entered suspense accounts and only \$13.53 million (net value) remained in suspense as of September 30, 2014.

*Figure 1. Dollar Value of FY 2014 Army Transactions Processed and Cleared (Net amount shown in millions)*



Source: DoD OIG analysis

\* Amounts projected based on monthly estimates provided by DFAS-IN.

During FY 2014, only a small percentage of Army transactions entered suspense accounts. Most of the transactions that entered a suspense account were cleared, primarily due to the efforts of those at accounting activities. By themselves, the balances in the nonexempt suspense accounts on September 30, 2014, were not material<sup>17</sup> to the Army General Fund financial statements. However, transactions other than those that belong to the Army General Fund reside in the Army suspense accounts. When combined with other individually immaterial misstatements and the effect of other control deficiencies discussed in this report, the aggregate effect of suspense accounts could become material.

## DFAS-IN Lacked Support for Some Suspense Account Balances

DFAS-IN personnel did not have sufficient controls in place to identify the detailed transactions that support the suspense account balances. Specifically, DFAS-IN personnel:

- completed yearend journal vouchers in DDRS to adjust each suspense account to the balance reported by the Treasury without supporting documentation;

<sup>17</sup> See Appendix C for more information on the materiality of the Army's suspense account balances.

- could not provide a universe of transactions that matched the Army’s FY 2014 yearend suspense account balances; and
- did not have detailed transactions to support the Army’s FY 2014 yearend suspense account balances.

DFAS-IN personnel did not have the appropriate business processes in place to capture and provide detailed support for transactions in Army suspense accounts.

**Adjustments Made Without Source Documentation**

DFAS-IN personnel completed yearend journal vouchers in DDRS to adjust each suspense account to the balance reported by the Treasury. The DoD Financial Management Regulation (FMR), volume 6A, chapter 2,<sup>18</sup> states that the proper preparation of and adequate support for journal vouchers are important to ensure that they accurately record financial events, and that documentation for a detailed audit trail exists. DFAS-IN uses journal vouchers to process monthly, quarterly, and annual adjustments to general ledger account balances in field- and higher-level accounting and reporting systems. When preparing the Army’s financial statements, the Treasury Financial Manual requires that agencies reconcile the Fund Balance with Treasury (FBWT)<sup>19</sup> with the Treasury’s Account Statement.

Although DFAS-IN personnel considered the adjustments to be supported because they were required to match the Army’s net disbursements to the Treasury amount, they made the adjustments without source documentation or the detailed transactions. For example, in October 2014, DFAS-IN made \$94 million<sup>20</sup> in FY 2014 yearend adjustments to force each suspense account to match what the Treasury reported. Table 5 identifies the unsupported adjustments made to the Army suspense accounts.

*Table 5. Army Suspense Account Adjustments to Match Treasury (in millions)*

Suspense Account	Treasury Balance on September 30, 2014	Army Balance Before Adjusting to Treasury	DDRS Journal Vouchers Performed to Match Treasury
Budget Clearing Account–Nonexempt (F3875.1)	\$7.70	\$108.58	(\$100.88)
Check Cancellations and Overpayment (F3880)	1.59	1.46	0.13
IPAC (F3885)	(10.66)	(17.40)	6.75
<b>Total</b>	<b>(\$1.37)</b>	<b>\$92.63</b>	<b>(\$94.00)</b>

Source: Treasury and DFAS-IN  
 Note: Totals may not add due to rounding.

<sup>18</sup> DoD FMR, volume 6A, chapter 2, “Financial Roles and Responsibilities.”  
<sup>19</sup> The FBWT represents the available budget spending authority of a Federal agency. Collections and disbursements by an agency increase or decrease the balance in the FBWT account.  
<sup>20</sup> For consistency, in this finding, we report dollar amounts in tables in terms of net values instead of absolute values.

Although DFAS-IN personnel were required to match net disbursements to the Treasury amounts, they could not support the adjustments, and therefore the adjustments were not appropriate.

### ***DFAS-IN Could Not Support Suspense Account Balances***

DFAS-IN personnel could not provide transactions to support most of the FY 2014 yearend account balances. DFAS-IN personnel monitored suspense accounts for 130 accounting activities. The accounting activities used multiple accounting systems to process suspense account transactions. DFAS-IN personnel relied on the accounting activities to report information about their account balances to DFAS-IN on a monthly basis. DFAS-IN used the reported information to develop the monthly SAR. According to DFAS-IN personnel, the monthly SAR would not always match the Treasury balances due to timing differences or when an accounting activity reported an incorrect balance. However, DFAS-IN personnel also stated they did not require supporting documentation for the amounts reported, or detailed transactions to support the account balances, because the level of effort required by the accounting activities to provide the details would drastically impact the timeliness of the monthly reporting process. Nonetheless, DFAS-IN and its associated accounting activities should be able to provide the supporting details when required.

DFAS-IN personnel could not provide transactions to support \$79.10 million of \$92.63 million, or 85 percent, of its FY 2014 yearend account balances. Table 6 identifies the unsupported differences for the Army suspense accounts.

*Table 6. Reconciling Differences for September 30, 2014 (in millions)*

Suspense Account	Army Balance Before Adjusting to Treasury	Universe of Transactions Provided	Unsupported Amount (no transactions)
Budget Clearing Account–Nonexempt (F3875.1)	\$108.58	\$11.77	\$96.81
Check Cancellations and Overpayments (F3880)	1.46	1.60	(0.14)
IPAC (F3885)	(17.40)	0.17	(17.57)
<b>Total</b>	<b>\$92.63</b>	<b>\$13.53</b>	<b>\$79.10</b>

Source: DFAS-IN

Note: Totals may not add due to rounding.

Without the detailed transactions, DFAS-IN personnel could not verify whether the reported data were accurate or track which transactions were not being cleared by the accounting activities.

## **DFAS-IN Did Not Include All Suspense Account Transactions in Army Fund Balance With Treasury Tool**

While DFAS-IN personnel were able to provide support for \$13.53 million in transactions in the FY 2014 yearend suspense account balances, some of these transactions were summary-level transactions.<sup>21</sup> DFAS-IN personnel obtained some detailed transactions through AFT. However, the remaining detailed transactions were contained in the legacy systems used by the accounting activities, and these legacy systems reported to AFT only a summary-level amount. As a result, AFT did not contain a complete universe of detailed transactions for the suspense accounts. Additionally, DFAS-IN personnel could not provide the detailed information needed to identify the summary transactions or determine the number and absolute dollar value of the summary transactions. Table 7 identifies the summary amounts included in the universe of suspense account transactions as of September 30, 2014.

*Table 7. Army Detailed and Summary Suspense Account Transaction Totals (in millions)*

Suspense Account	Detailed	Summary	Total
Budget Clearing Account–Nonexempt (F3875.1)	\$12.65	(\$0.88)	\$11.77
Check Cancellations and Overpayments (F3880)	1.56	0.03	1.60
IPAC (F3885.7)	0.17	0	0.17
<b>Total</b>	<b>\$14.38</b>	<b>(\$0.85)</b>	<b>\$13.53</b>

Source: DFAS-IN

Note: Totals may not add due to rounding.

Additionally, as identified in Table 8, DFAS-IN personnel could not provide adequate documentation for 15 of the 120 sampled transactions that were in suspense accounts on September 30, 2014.

*Table 8. Army Suspense Account Transactions Without Adequate Support*

Suspense Account	Sample Transactions	No Documentation Received	Documentation Received Was Not Adequate to Determine Age
Budget Clearing Account–Nonexempt (F3875.1)	62	0	13
Check Cancellations and Overpayments (F3880)	40	2	0
IPAC (F3885.7)	18	0	0
<b>Total</b>	<b>120</b>	<b>2</b>	<b>13</b>

Source: DoD OIG analysis

<sup>21</sup> Summary-level transactions represent the sum total of one or more than one individual transactions and lack the detailed information normally associated with a transaction.

For the Army's financial statements to be considered audit ready, the details to support transactions must be readily available to auditors. Expanding the capability of AFT to capture detailed transactions from legacy systems would reduce the amount of unsupported and summary transactions.

## Transactions in Suspense Accounts Did Not Clear in a Timely Manner

DFAS-IN personnel did not have sufficient controls in place to ensure that accounting activities responsible for the suspense transactions researched and cleared the transactions within 60 business days as required by the Treasury Financial Manual. Specifically, Treasury Financial Manual, volume I, Bulletin No. 2011-06,<sup>22</sup> requires that transactions in the Budget Clearing Account (F3875) and IPAC (F3885) suspense accounts be cleared within 60 business days of the date of the transaction. Treasury guidance does not include the 60-business-day requirement for the Check Cancellations and Overpayments (F3880) suspense account, but Treasury Financial Manual, volume 1, part 4, chapter 7000,<sup>23</sup> requires that every effort be made to maintain a minimum balance in the Check Cancellations and Overpayments account by transferring all monies initially classified in this account to the proper appropriation or fund as expeditiously as possible. Army (TI-21) suspense account transactions that did not clear by the end of the reporting period were reported in monthly SARs and used by DFAS-IN personnel to compile the Army General Fund financial statements.

Although numerous transactions entered and cleared the Army suspense accounts throughout FY 2014, DFAS-IN personnel identified on the September 2014 SAR that (\$588,174) of the (\$1.37 million) in suspense accounts as of September 30, 2014, had been in suspense for more than 60 days.<sup>24</sup> For 105 sampled transactions, 63 were not cleared within 60 business days.<sup>25</sup> These 63 transactions had a net value of (\$818,717) and an absolute value of \$6.51 million. For example, one sample transaction for \$4,471 entered suspense on July 25, 2011, and cleared the suspense account on February 19, 2015—895 business days later. See Table 9 for the breakdown by suspense account.

<sup>22</sup> Treasury Financial Manual, volume I, Bulletin No. 2011-06, "Reporting Suspense Account Activity Using F3875 and F3885 and Using Default Accounts F3500 and F3502 as a Government-wide Accounting Reporter," June 15, 2011.

<sup>23</sup> Treasury Financial Manual, volume I, part 4, chapter 7000, "Cancellations, Deposits, and Claims for Checks Drawn on the U.S. Treasury," August 22, 2007.

<sup>24</sup> DFAS-IN reports the age of transactions in suspense accounts by age category. There are five age categories for transactions more than 60 days old. The absolute dollar value of the transactions in these five age categories was \$40.20 million. While Treasury requires suspense account transactions be cleared within 60 business days, DFAS aged transactions by calendar days on the SAR.

<sup>25</sup> As indicated in Table 8, DFAS-IN personnel could not provide adequate documentation for 15 of the 120 sampled transactions. We determined the timeliness of clearance actions for the remaining 105 transactions.

Table 9. Timeliness of Clearance Actions on Army Suspense Account Transactions

Suspense Account	Sample Transactions	Transactions Cleared Within 60 Business Days	Transactions Not Cleared Within 60 Business Days
Budget Clearing Account–Nonexempt (F3875.1)	62	28	21
Check Cancellations and Overpayments (F3880)	40	0	38
IPAC (F3885.7)	18	14	4
<b>Total</b>	<b>120</b>	<b>42</b>	<b>63</b>

Source: DoD OIG analysis

## DFAS-IN Personnel Did Not Have a Formal Process to Track Suspense Account Transactions

DFAS-IN personnel did not have a formal process to track which suspense account transactions each of the 130 accounting activities were responsible for clearing. Instead, DFAS-IN personnel relied on the accounting activities to report information about their account balances without supporting documentation. To ensure compliance with Treasury Financial Manual, volume I, Bulletin No. 2011-06, and ensure the timely resolution of suspense transactions, it is imperative that DFAS-IN personnel identify and track the suspense account transactions that each of the accounting activities are responsible for clearing.

## Inaccurate Suspense Accounts Misstate Army General Fund Financial Statements

DFAS-IN personnel misstated the FY 2014 Army General Fund Financial Statements. The general ledger account balances that were used to compile the financial statement line items were misstated to the extent that the suspense account balances that rolled into them during the period-ending closing process were misstated or unsupported.

Unsupported adjustments may have further misstated line items on the FY 2014 Army General Fund Financial Statements by \$173.10 million.

Unsupported adjustments may have further misstated line items on the FY 2014 Army General Fund Financial Statements by \$173.10 million.

Specifically, DFAS-IN personnel prepared \$94 million in unsupported journal voucher adjustments to match Army suspense account balances to Treasury balances, and included an additional \$79.10 million in transactions they could not support. Without detailed transactions for all suspense accounts, DFAS-IN also could not effectively monitor the suspense account transactions to ensure they were cleared in a timely manner. In addition, by resolving

transactions in a timely manner and reducing the balances in the suspense accounts, DFAS-IN will improve the accuracy of Army's and other Services' financial statements and reduce potential problem disbursements and erroneous payments that could be in the suspense accounts.

Until the Army clears suspense account transactions, detailed accounting records and general ledger account balances are incomplete and there is a level of risk that financial statements are materially misstated. Uncleared transactions in suspense accounts represent an area of uncertainty that increases testing procedures and the likelihood that material misstatements will be identified on financial statement audits.

## Recommendations, Management Comments, and Our Response

### ***Recommendation A***

**We recommend that the Director, Defense Finance and Accounting Service–Indianapolis:**

- 1. Perform a trend analysis based on historical data and determine a reasonable allocation to adjust the Army General Fund financial statements and proper component-level financial statements accordingly.**

#### *Director, Defense Finance and Accounting Service–Indianapolis Comments*

The Director, DFAS-IN, agreed and stated that in June 2016, DFAS-IN improved the suspense account process by requiring the storage of key supporting documentation of all items cleared from suspense accounts. This improved process will enable the accumulation of historical data that can be used for trend analysis to facilitate determination of a reasonable allocation to adjust the Army General Fund financial statements. The Director also stated that after sufficient historical data are obtained, DFAS-IN will work with the Army to evaluate the financial impact of suspense account balances and determine what allocation(s), if any, should be made to the Army General Fund financial statements. The Director indicated an estimated completion date of March 31, 2017.

#### *Our Response*

Comments from the Director, DFAS-IN, addressed all the specifics of the recommendation, and no further comments are required.

- 2. Obtain supporting documentation for yearend journal vouchers to establish an audit trail and to ensure accurate reporting as required by the DoD Financial Management Regulation.**

*Director, Defense Finance and Accounting Service–Indianapolis Comments*

The Director, DFAS-IN, agreed, stating that due to timing differences and process handoff associated with the reconciliation of the Army General Fund financial statements to the Treasury's Central Accounting Reporting System balance at year-end, data are not always readily available to consider the journal vouchers as supported when prepared. The Director stated that a process improvement will be implemented to subsequently append supporting documentation to the journal vouchers ensuring they are supported. The Director provided an estimated completion date of September 30, 2016.

*Our Response*

Comments from the Director, DFAS-IN, addressed all the specifics of the recommendation, and no further comments are required.

- 3. Require accounting activities to maintain detailed transactions to support suspense account balances.**

*Director, Defense Finance and Accounting Service–Indianapolis Comments*

The Director, DFAS-IN, agreed, stating that DFAS issued guidance to site directorates to ensure each department involved with the monitoring and correcting of suspense accounts performs a monthly review, which requires storage of key supporting documentation of all items cleared from suspense accounts. The Director provided an estimated completion date of August 1, 2016.

*Our Response*

Comments from the Director, DFAS-IN, addressed all the specifics of the recommendation, and no further comments are required.

- 4. Include in the Army Fund Balance with Treasury Tool all suspense account transactions from accounting activities that use legacy systems.**

*Director, Defense Finance and Accounting Service–Indianapolis Comments*

The Director, DFAS-IN, did not agree or disagree, but stated that as of March 31, 2016, DFAS created two reports in the AFT to allow users to download inception-to-date data for suspense accounts with basic symbols 3875, 3885, and 3886.

### *Our Response*

We concluded that the creation of the two reports in the AFT will allow users the ability to obtain the documents needed to support transactions within the suspense accounts back to the inception of the transactions. Comments from the Director, DFAS-IN addressed all the specifics of the recommendation, and no further comments are required.

- 5. Implement a formal process to identify and track which suspense account transactions each of the accounting activities are responsible for clearing, and ensure that the transactions are corrected within 60 business days.**

### *Director, Defense Finance and Accounting Service–Indianapolis Comments*

The Director, DFAS-IN, agreed and stated that DFAS-IN established a suspense team in January 2016 to monitor suspense items and coordinate required clearances of Army non-exempt suspense transactions. This team supplements existing controls, which includes the reporting of actions to resolve suspense account items greater than 60 days old.

### *Our Response*

Comments from the Director, DFAS-IN, addressed all the specifics of the recommendation, and no further comments are required.

## Finding B

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### **Incorrect Use of Suspense Accounts**

DFAS-IN incorrectly used suspense accounts to record collections generated from revenue programs and temporarily hold TSP and tax withholdings collected from Army service members. This occurred because DoD did not take appropriate actions to use or request the use of proper fund accounts after receiving Treasury's approval for the continued use of suspense accounts in April 2008. As a result, DFAS-IN misstated Army financial statements by \$189.87 million on September 30, 2014, and \$223.70 million on September 30, 2015. Additionally, the use of suspense accounts made accounting and reporting of obligation and expenditure data for the revenue-generating programs challenging and complicated.

### **DFAS-IN Use of Exempt Suspense Accounts Not in Accordance With OMB Guidance**

DFAS-IN use of the Budget Clearing Account–Exempt (F3875.2), Personal Property Sales Proceeds (F3845), and Uniformed Services TSP (F3882) suspense accounts was not in accordance with OMB Circular No. A-11. The Circular states that agencies are to account for amounts that are not Government funds in deposit funds. Deposit fund accounts are established to record amounts held temporarily by the Government until ownership is determined or held by the Government as an agent for others.

OMB Circular No. A-11 cites several examples of how to use deposit fund accounts, including when state and local income taxes are withheld from Federal employees' salaries and not yet paid to the State or local government. Another example cited is when the Federal government maintains funds on behalf of individual Federal employees for investment in the TSP Fund. The Circular also states that special fund accounts are used to account for receipts earmarked for specific purposes and the expenditure of these receipts. The Treasury establishes special fund receipt and expenditure accounts. See Appendix B for additional guidance for using deposit funds and special fund accounts.

## ***Revenue-Generating Programs Did Not Meet Suspense Account's Intended Purpose***

Contrary to OMB guidance but consistent with DoD guidance, DFAS-IN personnel used the Budget Clearing Account-Exempt (F3875.2) to record proceeds generated from recyclable materials, agricultural and grazing land leases, forestry sales, and licensing and trademark fees. Similarly, DFAS-IN personnel used the Personal Property Sales Proceeds suspense account to account for revenue generated from the sale of personal property, which was consistent with DoD guidance but inconsistent with the intended use of suspense accounts.

The DoD FMR requires the use of suspense account Budget Clearing Account-Exempt for the recycling and forestry revenue programs. Specifically, DoD FMR, volume 11A, chapter 5,<sup>26</sup> states that for the sale of recyclable material, the net proceeds shall be deposited into the Budget Clearing Account (F3875). For example, DFAS-IN personnel recorded a transaction in the Budget Clearing Account-Exempt that occurred on September 24, 2014, when personnel at Joint Munitions Command received \$10,579 in proceeds from the sale of recycled material. Similarly, DoD FMR, volume 11A, chapter 16,<sup>27</sup> states that the Army should “deposit proceeds from the sale of forest products into General Fund Budget Clearing Account, 21F3875.3960.”<sup>28</sup> DFAS-IN placed collections by Army installations authorized to use these programs into the Budget Clearing Account-Exempt. The expenses for sustaining these programs were paid from the installation's Operation and Maintenance accounts and were reimbursed from the suspense account. DFAS-IN monitors and reports collections and obligations for each program. Funds placed in suspense for revenue generated from sales of recyclable materials, agricultural and grazing land leases, forestry sales, and licensing and trademark fees must be managed according to the various statutes pertaining to each program.

DFAS-IN deposited proceeds of sales of personal property into account F3845, “Proceeds of Sales, Personal Property,” which was established by the Treasury and identified in its Federal Account Symbols and Titles Book. DFAS Manual 37-100-15 also states that 21F3845 was for “Proceeds of Sales, Personal Property.”

<sup>26</sup> DoD FMR, volume 11A, chapter 5, “Disposition of Proceeds From Department of Defense Sales of Surplus Personal Property.”

<sup>27</sup> DoD FMR, volume 11A, chapter 16, “Accounting for Production and Sale of Forest Products.”

<sup>28</sup> Suspense account F3875 consists of limits, such as .3960, that define the type of transaction. DFAS Manual 37-100-15, “Standard Army Accounting Classification Basic Symbol,” April 29, 2015, defines 21F3875.3960 as “Budget Clearing Account (Forestry Program-Army).”

DFAS-IN personnel did not use the Budget Clearing Account–Exempt and Personal Property Sales Proceeds accounts the same way as other (nonexempt) suspense accounts. Specifically, contrary to OMB Circular No. A-11, transactions did not clear from these two suspense accounts. The funds in these accounts, primarily collections, were not being held temporarily, pending clearance to the correct general, special, and trust fund account, which was the stated purpose of a suspense account. The transactions represented revenue<sup>29</sup> generated from the proceeds of sales and should be recorded in accordance with U.S. generally accepted accounting principles. Some transactions in the accounts dated back to the late 1980s and early 1990s.

The funds in these accounts, primarily collections, were not being held temporarily, pending clearance to the correct general, special, and trust fund account.

Because accounting activity personnel did not clear the transactions in the accounts, the account balances generally increased over time.

For example, from September 30, 2014, through September 30, 2015, the balance in the Budget Clearing Account–Exempt increased from \$189.73 million to \$223.53 million, or 17.82 percent, and the balance in the Personal Property Sales Proceeds account increased from \$146,586 to \$167,535, or 14.29 percent. DFAS-IN personnel attributed the increases to be normal growth in the accounts. Additionally, DFAS-IN personnel could not provide documentation for many of the older transactions.

***Thrift Savings Plan and Tax Collection Withholdings Did Not Meet Suspense Account’s Intended Purpose***

DFAS-IN personnel improperly used the Uniformed Services TSP (F3882) account and a portion of the Budget Clearing Account–Exempt (F3875.2) account to hold funds that would later be withdrawn by the TSP Board or Internal Revenue Service. OMB Circular No. A-11 states that:

“the Government does act as a true trustee on behalf of some entities outside of the Government where it makes no decisions about the amount of these deposits or how they are spent. For example, it maintains accounts on behalf of individual Federal employees in the Thrift Savings Fund, investing them as directed by the individual employee. The Government accounts for such funds in deposit funds.”

<sup>29</sup> U.S. generally accepted accounting principles defines revenue as “inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity’s ongoing major or central operations.”

In addition, the Treasury Financial Manual states that the Budget Clearing Account should be used to temporarily hold unidentifiable general, special, or trust fund collections that belong to the Federal Government until they are classified to the proper receipt or expenditure account by the Federal entity. The Treasury Financial Manual does not state the account should be used as a temporary repository for routine, known transactions such as Federal payroll tax and insurance deductions. However, DFAS-IN recorded withholdings of employer and agency TSP contributions in the Uniformed Services TSP suspense account to temporarily hold the funds rather than deposit funds as required by OMB Circular No. A-11.

DFAS-IN personnel held the funds in the suspense account until the TSP Board accessed the account and withdrew the funds. For example, the Army collected \$104.64 million in TSP contributions on May 2, 2014, and again 3 months later, on August 1, 2014, \$105.02 million was collected. In both instances, the transactions were recorded in the Uniformed Services TSP suspense account.

Because the TSP Board did not always withdraw the same amount that was collected and deposited, DFAS-IN personnel could not identify when these two transactions were withdrawn by the TSP Board. Similar to TSP withholdings, DFAS recorded withholdings of Federal income and Federal Insurance Contribution Act taxes in the Budget Clearing Account–Exempt account to temporarily hold the funds pending transfer to the Internal Revenue Service. While DFAS-IN followed the DoD FMR by accounting for TSP withholding transactions in the Uniformed Services TSP suspense account, the DoD FMR does not require the collections of Federal taxes be deposited into the Budget Clearing Account–Exempt suspense account.

## **DFAS Did Not Formally Request New Accounts**

DFAS personnel inappropriately used the three suspense accounts<sup>30</sup> because DoD did not take appropriate actions to request that the Treasury establish the proper fund accounts. In January 2008,<sup>31</sup> DoD requested approval for the continued use of the Budget Clearing Account–Exempt suspense account to temporarily hold collections and disbursements pending clearance to the applicable account. The DoD request stated that in the absence of Treasury special fund receipt and expenditure accounts, DoD would continue to use suspense accounts for revenue-generating programs. The request also stated that due to system and

<sup>30</sup> Budget Clearing Account–Exempt, Personal Property Sales Proceeds, and Uniformed Services TSP.

<sup>31</sup> The Treasury guidance related to this waiver request only applied to the continued use of the F3875 and F3885 suspense accounts because these were the only clearing accounts that Treasury discontinued, effective July 2008, unless an agency was granted a waiver.

processing limitations, DoD must temporarily hold most tax collections in the suspense account until remitted to the Internal Revenue Service. The request referenced a future system improvement that would send payroll tax collections directly to the Internal Revenue Service without using a suspense account.

On April 2, 2008, the Treasury approved DoD to continue using suspense accounts. That approval included the use of suspense accounts to record transactions associated with revenue-generating programs and tax collections. Although Treasury officials acknowledged that DoD systems had limitations that precluded DoD from posting revenue sources properly, they encouraged DoD to use other means to improve its processes. Treasury officials made specific reference to the use of a deposit fund to account for transactions from revenue sources, such as income from sales of recyclable materials, agricultural and grazing land leases, forestry sales, and licensing and trademark fees. However, DoD took the Treasury's permission to use suspense accounts as authority for their continued, indefinite use.

Despite some improvements to systems and business processes, and due to failed attempts to make changes in the use of accounts, DFAS-IN personnel continued to use the three suspense accounts inconsistent with their stated purpose.

## Improper Use Led to Inaccurate Financial Statements

As a result of DFAS personnel improperly recording transactions in exempt suspense accounts instead of a special fund account, certain line items on the FY 2014 Army General Fund Financial Statements were misstated.

Certain line items on the FY 2014 Army General Fund Financial Statements were misstated.

Although FBWT would not be impacted, liability and revenue line items could be impacted if other than a suspense account were used. For example, by crediting a liability account on the financial statements instead of a revenue account to record proceeds from revenue-generating sales, DFAS-IN personnel overstated Intragovernmental: Other Liabilities and understated Cumulative Results of Operations by \$189.87 million on September 30, 2014, and \$223.70 million on September 30, 2015. Although the use of a suspense account instead of a deposit fund did not impact the Army General Fund Balance Sheet, it resulted in the misclassification of liability accounts. See Appendix C for a discussion of how the use of suspense accounts instead of a special fund account or a deposit fund account impacted the Army General Fund financial statements.

Additionally, the use of suspense accounts made compliance with laws associated with revenue-generating programs challenging and complicated. For example, the funds collected for these revenue-generating programs cannot be disbursed directly from the suspense accounts. Rather, when a reimbursement was needed

to fund an authorized expense, DFAS-IN personnel transferred the funds to a special fund in order to make a disbursement. Using suspense accounts made it difficult to manage and accurately report obligation and expenditure data for the programs.

## **Corrective Actions Taken by DFAS During the Audit**

During our audit, DFAS-IN personnel recognized that transactions in the three suspense accounts should not be maintained in the suspense accounts and began to take corrective actions. Specifically, DFAS-IN personnel worked with OUSD(C) and DFAS Accounting Standards and Reporting personnel to address the inappropriate uses of these suspense accounts. The following actions by DFAS have been completed or are still underway.

### ***Federal Tax Withholding***

On December 4, 2015, the DFAS Director, Accounting Standards and Reporting, issued a memorandum stating, “all Site Directorates across the DFAS Operations network are required to utilize deposit accounts 6275 [Withheld State and Local Taxes] and 6276 [Other Federal Payroll Withholding, Allotments] for Tax and Payroll Withholding.” Recording these transactions in a deposit fund account, instead of a suspense account, will allow DFAS to comply with OMB Circular No. A-11 and more accurately report transactions on Army’s financial statements by posting to the correct liability general ledger account.

Federal income tax and Federal Insurance Contribution Act withholdings accounted for \$76.52 million, or 58.42 percent, of the reported amount in the Budget Clearing Account–Exempt on September 30, 2014, and \$90.16 million, or 40.34 percent, on September 30, 2015.

### ***Revenue-Generating Programs***

DFAS and OUSD(C) personnel benchmarked against other agencies to see how other agencies were accounting for revenue-generating program transactions. For example, OUSD(C) personnel determined that the Federal Account Symbols and Titles Book established special fund accounts for the revenue-generating program transactions within the Department of the Interior. To comply with U.S. generally accepted accounting principles and accurately report revenue, DFAS and OUSD(C) personnel were preparing a request to have the Treasury establish special fund accounts to replace the Budget Clearing Account–Exempt and Personal Property Sales Proceeds suspense accounts. By recording these transactions in this manner, FBWT and Cumulative Results of Operations would increase. This accounting treatment would comply with U.S. generally accepted accounting principles and lead to more accurate financial statements by crediting a revenue general ledger account instead of a liability account.

### ***Thrift Savings Plan Withholdings***

In January 2016, DFAS began researching whether it was proper to record transactions in the Uniformed Services TSP suspense account. During that same month, DFAS Accounting Standards and Reporting personnel recommended moving the TSP payroll deductions collected from Army service members into deposit funds. Moving the TSP and payroll to deposit funds complies with OMB Circular No. A-11.

## **Recommendations, Management Comments, and Our Response**

### ***Recommendation B***

**We recommend that the Director, Defense Finance and Accounting Service–Indianapolis, in coordination with Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer and other Defense Finance and Accounting Service personnel:**

- 1. Establish a special fund account to record and report the revenue-generating transactions, as well as request the establishment of deposit fund accounts to properly record the Uniformed Services Thrift Savings Plan transactions and tax collections.**

### ***Director, Defense Finance and Accounting Service–Indianapolis Comments***

The Director, DFAS-IN, agreed and provided the status of each of the accounts:

- a. DFAS, along with its customers, developed a proposal for legislative change, which would establish a special fund account (5000 series) for transactions related to all revenue-generating programs. The proposal is currently going through the DFAS vetting process. The Director, DFAS-IN, estimated a completion date of October 31, 2017.
- b. DFAS submitted a formal request to OSD on May 18, 2016, to establish a deposit fund account for TSP transactions. Upon approval from OMB and Treasury establishes the new accounts, DFAS will begin making the system changes. The Director, DFAS-IN, estimated a completion date of October 31, 2017.
- c. DFAS is currently identifying the necessary system change requirements for all the services to begin transferring tax collections to deposit accounts. The Director, DFAS-IN, estimated a completion date of October 31, 2016.

2. **Request, as necessary, from Office of Management and Budget and the Department of the Treasury, approval to establish special and deposit fund accounts.**

*Director, Defense Finance and Accounting Service–Indianapolis Comments*

The Director, DFAS-IN, agreed with the recommendation and estimated a completion date of October 31, 2017.

3. **Revise the DoD Financial Management Regulation to reflect the changes in how the special fund and deposit fund accounts are to be used.**

*Director, Defense Finance and Accounting Service–Indianapolis Comments*

The Director, DFAS-IN, agreed, stating that in all three scenarios (Recommendation B.1), regulations will be identified and updated by October 31, 2017.

*Our Response*

Comments from the Director, DFAS-IN, addressed all the specifics of the recommendations, and no further comments are required.

## Finding C

### Improper IPAC Adjustments

DFAS-IN reported incorrect suspense account balances for unprocessed IPAC transactions (F3885) in the SAR and performance metrics. Specifically, during the 12-month period ending August 2015, DFAS-IN Disbursing Operations prepared journal vouchers to reduce IPAC suspense account balances for the Army- and DoD-wide (general fund) appropriations at month's end from between \$55.67 million to \$1,837.72 million. This occurred because, beginning in 2003, Disbursing Operations personnel inappropriately established a maximum \$50 million threshold for the monthly reporting of IPAC suspense account balances, which they believed was approved by the Treasury. As a result, DFAS and OSD management did not have accurate information to monitor progress in reducing suspense account balances.

### Month-End Adjustments Understated IPAC Suspense Account Balances

The DFAS-IN Disbursing Operations and Enterprise System Solution Directorates reported incorrect suspense account balances for unprocessed IPAC transactions in management reports. At the end of each month, Disbursing Operations personnel reduced the IPAC suspense account balance to an amount less than \$50 million by preparing a journal voucher that moved the uncleared transactions with the largest dollar value from the IPAC suspense accounts to the appropriations in which Disbursing Operations personnel believed the transactions should clear. At the beginning of the subsequent month, Disbursing Operations personnel reversed the journal voucher. DFAS-IN personnel stated that they prepared the journal vouchers to move the IPAC suspense account transactions to the appropriation that they believed the transactions would eventually clear to, thus providing a more accurate reporting on the SAR.

During the 12-month period ending August 2015, the Disbursing Operations personnel prepared journal vouchers to reduce IPAC suspense account balances for the Army and DoD-wide appropriations at month's end from between \$55.67 million and \$1,837.72 million.<sup>32</sup> DFAS-IN Disbursing Operations personnel reported the reduced balances in the monthly SAR sent to DFAS, and Enterprise

<sup>32</sup> DFAS-IN was responsible for the accounting and reporting of suspense account information for both the Army General Fund and the DoD-wide (general fund) appropriations. Disbursing Operations personnel prepared one journal voucher that reduced both the Army and DoD-wide appropriation transactions from the IPAC suspense accounts.

System Solutions personnel used the SAR to prepare financial operations performance metrics for DFAS and OSD managers. Although DFAS-IN reported that the monthly balance for the IPAC suspense account was consistently less than \$50 million, the actual balance ranged from \$100.58 million to \$1,886.12 million (Table 14). In addition, over the same 12-month period, Disbursing Operations personnel understated the number of suspense account transactions in the monthly SAR and performance metrics by an average of 190 transactions per month. The IPAC suspense account balances and the dollar value of the associated journal vouchers Disbursing Operations personnel prepared over the 12-month period are listed in Table 14.

*Table 14. Monthly Suspense Account Balances and Journal Vouchers (in millions)*

Month	IPAC Uncleared Balance	DFAS-IN Journal Voucher Amount	Balance Reported on SAR
September 2014	\$100.58	\$55.67	\$44.91
October 2014	112.85	64.88	47.97
November 2014	147.10	97.59	49.52
December 2014	117.66	70.32	47.34
January 2015	(199.18) <sup>1</sup>	(246.73)	47.55
February 2015	484.79	435.88	48.91
March 2015	351.63	303.12	48.51
April 2015	683.32	634.83	48.48
May 2015	744.41	695.51	48.90
June 2015	1,886.12	1,837.72	47.15 <sup>2</sup>
July 2015	1,530.67	1,481.49	49.18
August 2015	1,491.45	1,444.62	46.83
<b>Total</b>	<b>\$7,451.38</b>	<b>\$6,874.89<sup>3</sup></b>	<b>\$575.25</b>

Source: DFAS-IN

Note: Totals may not add due to rounding.

<sup>1</sup> This amount included one negative transaction valued at \$533.79 million that was incorrectly assigned to the IPAC suspense account.

<sup>2</sup> The balance reported on June 2015 SAR was understated by \$1.24 million due to DFAS-IN personnel overstating the dollar value of the journal voucher in its computation of the balance reported on the SAR.

<sup>3</sup> Over this 12-month period, DFAS reduced the IPAC suspense account balances by \$6.87 billion (\$3.58 billion for the Army IPAC suspense account and \$3.30 billion for the DoD-wide IPAC suspense account). The journal voucher for September 2014 did not impact the Army IPAC suspense account.

## DFAS-IN Could Not Support Threshold it Established

Disbursing Operations personnel inappropriately established a maximum \$50 million threshold for the monthly reporting of IPAC suspense account balances. DFAS officials stated that the threshold was established in 2003 and that they did not have support for the rationale. The justification on the journal vouchers referenced an agreement with the Treasury that established the IPAC dollar threshold. However, Disbursing Operations personnel could not provide the agreement between them and the Treasury justifying the use of the journal voucher or the arbitrarily established dollar threshold. Personnel in the Budget Report Division, Department of the Treasury stated that they were not aware of the agreement. During the audit, DFAS-IN Disbursing and Accounting Operations personnel determined that there was no support for reducing the IPAC suspense account balances.



DFAS officials stated that the threshold was established in 2003 and that they did not have support for the rationale.

## Reported Suspense Account Information Understated

By arbitrarily moving Army and DoD-wide appropriation transactions out of the IPAC suspense accounts without proper research, Disbursing Operations personnel misreported the actual number and dollar value of transactions reported at month's end in the suspense accounts on monthly SARs and in performance metrics. The suspense account balance metric measured the timeliness of how a DoD agency cleared suspense account transactions. Consequently, DFAS and OSD management personnel did not have accurate information on the number and dollar value of transactions in the IPAC suspense accounts.

DFAS-IN Disbursing Operations understated IPAC suspense account balances for Army- and DoD-wide appropriations at month's end from between \$55.67 million and \$1,837.72 million over the 12-month period ending August 2015. Without accurate information on the number and dollar value of transactions comprising the IPAC suspense account, DFAS and OSD managers did not have accurate information to effectively monitor progress in reducing suspense account balances.

## Corrective Actions Taken to Discontinue Journal Voucher

On August 7, 2015, after our initial discussions with them, DFAS-IN Disbursing and Accounting Operations personnel prepared a white paper indicating their intention to discontinue the monthly practice of processing a journal voucher to reduce IPAC suspense account balances after August 2015 month-end processing. We confirmed that in October 2015, Disbursing Operations personnel discontinued preparing the IPAC journal voucher. The IPAC suspense account balance increased to \$130.40 million in the September 30, 2015, SAR. Table 15 details the dollar values of IPAC suspense account balances reported in the SARs during the last 4 months of 2015.

In October 2015, Disbursing Operations personnel discontinued preparing the IPAC journal voucher.

Table 15. Monthly SAR Balances (in millions)

Month	Balance Reported on SAR
September 2015	\$130.40
October 2015	\$469.67
November 2015	\$314.61
December 2015	\$260.80

Source: DFAS-IN

DFAS will save money because Disbursing Operations personnel stated that preparing the journal voucher cost approximately 16 hours of overtime each month. DFAS-IN Disbursing and Accounting Operations personnel stated that they will continue to use the IPAC suspense account until a long-term plan can be developed to prevent the inflow of transactions into the suspense account. They also stated that they will work to reduce aged IPAC suspense account transactions that are more than 30 days old. Based on corrective actions taken by DFAS-IN during the course of the audit, we are not making any recommendations for this finding.

## Appendix A

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### Scope and Methodology

We conducted this performance audit from June 2015 through June 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We focused our review on how DFAS-IN personnel used suspense accounts, managed transactions in the Army suspense accounts, and reported Army suspense account balances in the SAR, financial operations performance metrics, and financial statements. We reviewed suspense account guidance from OMB, the Treasury, and DoD, and considered how DFAS-IN differentiated between nonexempt and exempt suspense accounts. We also reviewed DFAS-IN controls over managing and reporting suspense accounts. Additionally, we interviewed and participated in meetings with personnel from the Treasury, DFAS, and Department of the Army.

We obtained the Army's September 30, 2014, and March 31, 2015, suspense account balances from DFAS-IN personnel and the Treasury's Central Accounting and Reporting System.<sup>33</sup> We also obtained the detailed transactions that DFAS-IN personnel were able to obtain from the accounting activities that supported the suspense account balances. We compared the Army suspense account balances that DFAS-IN reported to the Treasury's reported balances to determine whether the balances agreed.

Additionally, we reviewed the DFAS-IN suspense account reporting process to determine whether DFAS-IN personnel allocated a portion of Army suspense account balances to other DoD component entities. We reviewed the September 30, 2014, and March 31, 2015, journal vouchers prepared by DFAS-IN personnel to force the suspense account balances to match the amounts in the Treasury accounts before preparing the quarterly Army financial statements. We also reviewed journal vouchers for reducing the IPAC suspense account balance.

We reviewed the Treasury waiver DoD received in April 2008 authorizing the continued use of suspense accounts and the FY 2014 certification of suspense accounts, which the Treasury required for continued use of the accounts. We

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<sup>33</sup> The Central Accounting and Reporting System handles accounting and reporting for all Federal agencies and is the central accounting system of record for the Department of the Treasury, Bureau of Fiscal Service.

also reviewed the FY 2014 DoD metrics information related to the aging of Army transactions in suspense accounts. Additionally, we reviewed 132 non-statistical sample transactions within the Army's exempt (Budget Clearing Account-Exempt [F3875.2], Personal Property Sales Proceeds [F3845], and Uniformed Services TSP [F3882]) suspense accounts to determine whether transactions were accounted for in the correct suspense account and whether DFAS-IN could provide supporting documentation. We also reviewed 120 statistical sample transactions within the Army's nonexempt suspense accounts to determine whether suspense account transactions:

- were accounted for in the correct suspense account,
- cleared the suspense account within 60 business days,
- cleared to a different Treasury Index, and
- had documentation to support the transaction that cleared the suspense account transaction.

However, due to data quality issues with the nonexempt suspense account information, we could not project the testing results of the statistically sampled transactions. Tables 16 and 17 detail the universe and sample information for the six Army suspense accounts.

*Table 16. Number of Transactions in the Universe and Sampled*

	Suspense Account	Universe	Cleared*	Sampled
<b>Nonexempt</b>	Budget Clearing Account–Nonexempt (21F3875.1)	4,232	430	62
	Check Cancellations and Overpayments (21F3880)	118	0	40
	IPAC (21F3885.7)	245	47	18
	<b>Total</b>	<b>4,595</b>	<b>477</b>	<b>120</b>
<b>Exempt</b>	Personal Property Sales Proceeds (21F3845)	609	0	30
	Budget Clearing Account–Exempt (21F3875.2)	6,892	0	72
	Uniformed Services TSP (21F3882)	82	0	30
	<b>Total</b>	<b>7,583</b>	<b>0</b>	<b>132</b>

Source: DoD OIG analysis

\* Based on methodology provided by DFAS-IN personnel, we determined the number of transactions cleared from the nonexempt suspense accounts between September 30, 2014, and March 31, 2015. We derived our samples from the number of cleared transactions. See Finding A for additional details.

Table 17. Net Value of Transactions in the Universe and Sampled (in millions)<sup>1</sup>

	Suspense Account	Universe	Cleared	Sampled <sup>2</sup>
<b>Nonexempt</b>	Budget Clearing Account–Nonexempt (21F3875.1)	\$11.77	\$12.61	\$12.95
	Check Cancellations and Overpayments (21F3880)	1.60	0	1.53
	IPAC (21F3885.7)	0.17	(0.67)	(0.68)
	<b>Total</b>	<b>\$13.53</b>	<b>\$11.94</b>	<b>\$13.80</b>
<b>Exempt</b>	Personal Property Sales Proceeds (21F3845)	\$0.15	\$0	\$2.79
	Budget Clearing Account–Exempt (21F3875.2)	130.99	0	86.01
	Uniformed Services TSP (21F3882)	51.29	0	184.84
	<b>Total</b>	<b>\$182.42</b>	<b>\$0</b>	<b>\$273.64</b>

Source: DoD OIG analysis

Note: Totals may not add due to rounding.

<sup>1</sup> DFAS-IN personnel could not provide a universe of transactions that matched the Army’s FY 2014 yearend suspense account balances. See Finding A for additional details.

<sup>2</sup> The sampled amount is more than the universe amount due to suspense account transactions including both collections and disbursements, and the reported amounts are shown net.

We also reviewed 586 of 947 Army transactions held in the Navy IPAC (17F3885) suspense account and coordinated with other DoD Office of Inspector General teams performing audits of other DoD suspense accounts.

## Use of Computer-Processed Data

We used accounting data from multiple accounting systems to perform this audit. Specifically, DFAS-IN personnel used AFT to pull suspense account transactions from the Standard Army Finance Information System, Standard Operation and Maintenance Army Research and Development System, General Fund Enterprise Business System, Global Combat Support System–Army, and Corps of Engineers Financial Management System. DFAS-IN personnel provided the transactions that comprised the universe of FY 2014 Army suspense accounts.

We compared the universe with the suspense account balances shown on the FY 2014 Army General Fund Financial Statements that we obtained from DDRS. We compared this information with the suspense account balances we obtained from the Treasury’s Central Accounting and Reporting System. However, the universe did not contain complete data and included data in summary lines as discussed in Finding A. We obtained supporting documentation for sample items, including vouchers, purchase requests, accounting reports, and system screen shots. We believe the computer-processed data we used were sufficiently reliable for reaching our audit conclusions and supporting the findings in this report.

## Use of Technical Assistance

Personnel from the Quantitative Methods Division, DoD Office of Inspector General, assisted us in selecting a sample of transactions for testing the six suspense accounts. Quantitative Methods Division personnel provided us a statistical sample for nonexempt suspense accounts and a nonstatistical sample for exempt suspense accounts.

## Prior Coverage

During the last 5 years, the Air Force Audit Agency issued one report discussing suspense accounts. Unrestricted Air Force Audit Agency reports can be accessed from <https://www.foia.af.mil/palMain.aspx> by clicking on Freedom of Information Act Reading Room and then selecting audit reports.

### ***Air Force***

Report No. F2014-0025-RWT000, "Qualified Recycling Program 452d Air Mobility Wing March ARB CA," March 14, 2014

## Appendix B

### Special Fund Accounts, Clearing Accounts, and Deposit Funds

OMB Circular No. A-11 states that agency activities are financed through general funds, special funds, and revolving funds, which collectively constitute the Federal funds group. Special fund receipt and expenditure accounts are considered Federal funds. Trust funds and trust revolving funds constitute the trust funds group. Besides funds in these two groups, there are other (non-budgetary) accounts. These are clearing (suspense) accounts and deposit funds. OMB Circular No. A-11 provides the following guidance on clearing accounts, special fund receipt and expenditure accounts, and deposit fund accounts.

*Table 18. OMB Circular No. A-11 Guidance on Accounts*

Account Type	Purpose
Clearing Accounts (F3800 – F3885)	Temporarily hold general, special, or trust fund Federal Government collections or disbursements pending clearance to the applicable receipt or expenditure accounts. (Amounts in clearing accounts should not be used to make outlays or payments.)
Special Fund Receipt Accounts (5000 – 5999)	Record receipts earmarked by law for a specific purpose (other than business-like activity).
Special Fund Expenditure Accounts (5000 – 5999)	Record budget authority, obligations, and outlays of special fund receipts. Record offsetting collections authorized by law, such as the Economy Act, and associated budget authority, obligations, and outlays.
Deposit Fund Accounts (6000 – 6999)	Record deposits and disbursements of monies not owned by the Government or not donated to the Government (amounts donated to the Government are deposited in a special or trust fund account).

Source: OMB Circular No. A-11

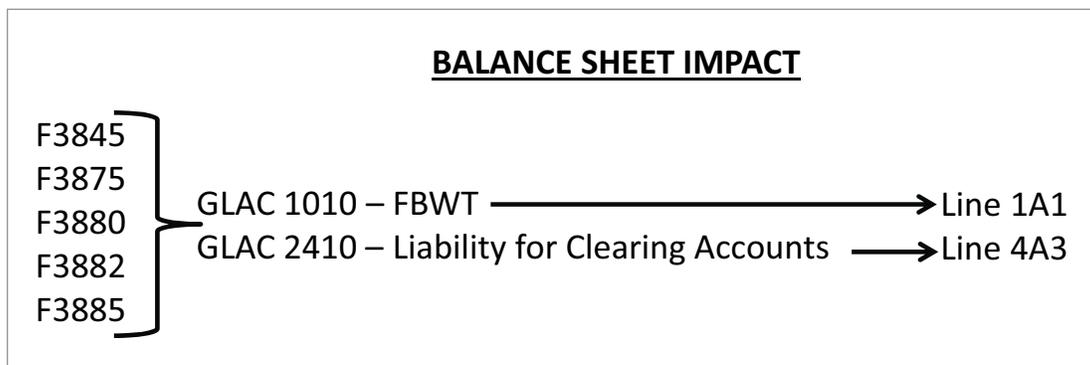
## Appendix C

### Materiality of Suspense Account Balances and Impact of Problems Identified

Army suspense accounts impact the Army General Fund Balance Sheet and related notes, as well as the SBR. Specifically, the accounts impact the FBWT line on the Balance Sheet, Note 3 (FBWT) and Note 15 (Other Liabilities). The Treasury Financial Manual states the proper recording of a suspense account transaction is to debit general ledger account code (GLAC) 101000 (Fund Balance with Treasury) and credit GLAC 241000 (Liability for Clearing Accounts). The Treasury Financial Manual states that GLAC 101000 is reported on the FBWT line on the Balance Sheet (Line 1A1 for Army General Fund Balance Sheet) and GLAC 241000 is reported on either the Other Liabilities line or the Intragovernmental: Other Liabilities line, depending on the type of entity involved in the transaction with the Army.

As illustrated in Figure 2, GLAC 101000 increases Line 1A1 (Intragovernmental: FBWT) and GLAC 241000 increases Line 4A3 (Intragovernmental: Other Liabilities).

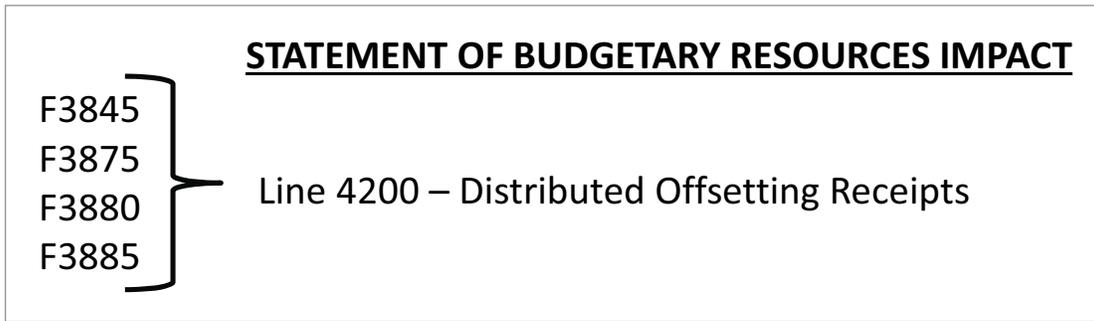
Figure 2. Suspense Account Impact on the Balance Sheet



Source: Treasury

Army suspense accounts, except for the Uniformed Services TSP suspense account (F3882), were considered distributed offsetting receipt accounts, which impacted the SBR (line 4200). Account F3882 was considered nonentity FBWT and was not included in distributed offsetting receipts. Distributed offsetting receipt accounts were also reported in Note 21 (Reconciliation of Net Cost of Operations to Budget). See Figure 3 to see what suspense accounts impacted the SBR.

Figure 3. Suspense Account Impact on the SBR



Source: Treasury

Since suspense accounts impacted both the Army General Fund Balance Sheet and the SBR, we considered the materiality on both statements. We used Government Accountability Office/President’s Council of Integrity and Efficiency’s Financial Audit Manual Section 230, “Determine Planning and Design Materiality and Tolerable Misstatement,” to calculate materiality. Financial Audit Manual Section 230 identifies planning materiality as 3 percent of the materiality base and the design materiality and tolerable misstatement as 33 percent of the planning materiality. Table 19 identifies the materiality threshold for both the Army General Fund Balance Sheet and the SBR.

Table 19. Army General Fund Materiality Thresholds (in millions)

Materiality Calculation*	FY 2014 Dollars	FY 2015 Dollars
Balance Sheet		
Materiality Base	\$174,225.89	\$169,116.78
Planning Materiality	5,226.78	5,073.50
Design Materiality and Tolerable Misstatement	1,742.26	1,691.17
Statement of Budgetary Resources		
Materiality Base	\$240,799.53	\$219,455.47
Planning Materiality	7,223.99	6,583.66
Design Materiality and Tolerable Misstatement	2,408.00	2,194.56

Source: DoD OIG analysis

\* The materiality base for the Army General Fund was the total assets on the Balance Sheet less the Total Intragovernmental Assets. The materiality base for the SBR was the Total Budgetary Resources.

Table 20 identifies the FY 2014 and FY 2015 suspense account balances for both exempt and nonexempt accounts.

*Table 20. Army Exempt and Nonexempt Suspense Account Totals for FY 2014 and FY 2015 (in millions)*

Suspense Account	FY 2014	FY 2015
Exempt		
Personal Property Sales Proceeds (21F3845)	\$0.15	\$0.17
Budget Clearing Account-Exempt (21F3875.2) <sup>1</sup>	189.73	223.53
Uniformed Services TSP (21F3882)	(3.46)	24.94
Nonexempt		
Budget Clearing Account–Nonexempt (21F3875.1) <sup>1</sup>	\$7.70	\$536.50 <sup>2</sup>
Check Cancellations and Overpayments (21F3880)	1.59	0.03
IPAC (21F3885)	(10.66)	(9.47)

Source: DoD OIG analysis

<sup>1</sup> The totals of 21F3875.1 and 21F3875.2 do not add to the totals of 21F3875 as shown in Table 1 due to rounding.

<sup>2</sup> This increase was largely due to a General Fund Enterprise Business System error which caused military pay taxes to be reported incorrectly. A manual work around was put in place to fix the transactions until the system could be corrected. However, at yearend \$500.54 million had not been corrected.

Although the balances in the suspense accounts for FY 2014 and FY 2015 were individually and collectively immaterial, when likely misstatements are aggregated during an audit, the amounts can become material and warrant additional attention. However, the use of suspense accounts instead of special fund accounts resulted in misstated line item balances. Specifically, as discussed in Finding B, the incorrect use of suspense accounts resulted in the overstatement of Intragovernmental: Other Liabilities and the understatement of Cumulative Results of Operations by \$189.87 million on September 30, 2014, and \$223.70 million on September 30, 2015. The Treasury Financial Manual states the proper recording of a special fund transaction is to debit GLAC 101000 and credit a revenue GLAC, such as 520000 (Revenue from Services Provided) or 590000 (Other Revenue). The Treasury Financial Manual also states that GLAC 101000 is reported on the FBWT line on the Balance Sheet and GLACs 520000 and 590000 are reported on Cumulative Results of Operations–Dedicated Collections and Cumulative Results of Operations–Other Funds, which are Lines 7C and 7D, respectively, on the Army General Fund Balance Sheet. As discussed in Finding A, this accounting treatment is different than followed by DFAS-IN personnel for suspense accounts. Tables 21 and 22 show that by crediting a liability account instead of a revenue account to record proceeds from sales, DFAS-IN personnel overstated Intragovernmental: Other Liabilities and understated Cumulative Results of Operations by \$189.87 million on September 30, 2014, and \$223.70 million on September 30, 2015.

Table 21. Financial Statement Impact of Revenue-Generating Programs (FY 2014)

		September 30, 2014 Overstatement		September 30, 2014 Understatement	
Suspense Accounts and GLACs	Budget Clearing Account–Exempt (21F3875.2) GLAC 241000	\$189.73	Revenue GLAC, such as 520000 or 590000	(\$189.87)	
	Personal Property Sales Proceeds (21F3845) GLAC 241000	<u>0.15</u>			
Balance Sheet Line	Overstatement of Intragovernmental: Other Liabilities	\$189.87	Understatement of Cumulative Results of Operations	(\$189.87)	

Source: DoD OIG analysis

Table 22. Financial Statement Impact of Revenue-Generating Programs (FY 2015)

		September 30, 2015 Overstatement		September 30, 2015 Understatement	
Suspense Accounts and GLACs	Budget Clearing Account–Exempt (21F3875.2) GLAC 241000	\$223.53	Revenue GLAC, such as 520000 or 590000	(\$223.70)	
	Personal Property Sales Proceeds (21F3845) GLAC 241000	<u>0.17</u>			
Balance Sheet Line	Overstatement of Intragovernmental: Other Liabilities	\$223.70	Understatement of Cumulative Results of Operations	(\$223.70)	

Source: DoD OIG analysis

Although the use of a suspense account instead of a deposit fund did not impact the Army General Fund Balance Sheet, it resulted in the misclassification of liability accounts. The Treasury Financial Manual states the proper recording of a deposit fund transaction is to debit GLAC 101000 and credit GLAC 240000 (Liability for Nonfiduciary Deposit Funds and Undeposited Collections). The Treasury Financial Manual also states that GLAC 240000 is reported on the Other Liabilities Line, which is Line 4F on the Army General Fund Balance Sheet. As shown in Tables 23 and 24, by crediting the incorrect liability GLAC to record collections of Uniformed Services TSP, DFAS-IN personnel overstated Intragovernmental: Other Liabilities and understated Other Liabilities by (\$3.46 million) on September 30, 2014, and \$24.94 million on September 30, 2015.

*Table 23. Financial Statement Impact of TSP Collections (FY 2014)*

	September 30, 2014 Overstatement		September 30, 2014 Understatement	
Suspense Accounts and GLACs	Uniformed Services TSP (21F3882) GLAC 241000	(\$3.46)	GLAC 240000	\$3.46
Balance Sheet Line	Overstatement of Intragovernmental: Other Liabilities	(\$3.46)	Understatement of Other Liabilities	\$3.46

Source: DoD OIG analysis

*Table 24. Financial Statement Impact of TSP Collections (FY 2015)*

	September 30, 2015 Overstatement		September 30, 2015 Understatement	
Suspense Accounts and GLACs	Uniformed Services TSP (21F3882) GLAC 241000	\$24.94	GLAC 240000	(\$24.94)
Balance Sheet Line	Overstatement of Intragovernmental: Other Liabilities	\$24.94	Understatement of Other Liabilities	(\$24.94)

Source: DoD OIG analysis

# Management Comments

## Defense Finance and Accounting Service



**DEFENSE FINANCE AND ACCOUNTING SERVICE**  
8899 EAST 56<sup>TH</sup> STREET  
INDIANAPOLIS, IN 46249-0201

JUN 13 2016

DFAS-JBK/IN

MEMORANDUM FOR Inspector General U.S. Department of Defense

SUBJECT: DODIG final report for the audit of "Improvements Needed in Managing Army Suspense Accounts" (Project No. D2015-D000FI-0203.000)

The Defense Finance and Accounting Service Indianapolis is providing management comments to recommendations A.1, A.2, A.3, A.4, A.5, B.1, B.2 and B.3 of the subject draft report.

My point of contact for this action is [REDACTED] who can be reached at [REDACTED].

A handwritten signature in black ink, appearing to read "Gregory L. Schmalfeldt".

Gregory L. Schmalfeldt  
Director, DFAS-IN

Attachment:  
As stated

[www.dfas.mil](http://www.dfas.mil)

## Defense Finance and Accounting Service (cont'd)

### DODIG Audit of the Army (TI21) Suspense Accounts (Project No. D2015-D000FI-0203.000)

**Recommendation A:** We recommend that the Director, Defense Finance and Accounting Service, Indianapolis:

1. Perform a trend analysis based on historical data and determine a reasonable allocation to adjust the Army General Fund financial statements and proper component-level financial statements accordingly.

**Management Comments:** DFAS concurs with the recommendation. DFAS Indianapolis improved the suspense account process in June 2016 to require storage of key supporting documentation (historical records) of all items cleared from suspense accounts. This improved process will also enable the accumulation of historical data that can be used for trending analysis to facilitate determination of reasonable allocation to adjust the Army General Fund financial statements.

**Estimated Completion Date:** August 1, 2016

DFAS Indianapolis will work with the Army to evaluate the financial impact to their General Fund financial statement after sufficient historical data is obtained, and to determine what allocation(s), if any, should be made and how.

**Estimated Completion Date:** March 31, 2017

2. Obtain supporting documentation for year-end journal vouchers to establish an audit trail and to ensure accurate reporting as required by the DoD Financial Management Regulation.

**Management Comments:** DFAS concurs with the recommendation. DFAS Indianapolis reconciles to the Central Accounting Reporting System (CARS) balance at year-end to ensure the Army General Fund financial statement supports the Treasury Balance at a summary level. Due to timing differences and process handoffs, data is not always readily available to consider the required Journal Voucher(s) as supported at the time of preparation; therefore, a process improvement will be implemented to subsequently append supporting documentation to the JV(s) ensuring they are supported.

**Estimated Completion Date:** September 30, 2016

3. Require accounting activities to maintain detailed transactions upon request to support suspense account balances.

**Management Comments:** DFAS concurs with the recommendation. DFAS issued guidance to site directorates to ensure each department involved with the monitoring and correcting of

## Defense Finance and Accounting Service (cont'd)

suspense accounts perform a monthly review. This review requires storage of key supporting documentation (historical records) of all items cleared from suspense accounts.

**Estimated Completion Date:** August 1, 2016

4. Include in the Army Fund Balance with Treasury Tool all suspense account transactions from accounting activities that use legacy systems.

**Management Comments:** DFAS created two reports in the AFT tool to allow users to download inception-to-date data for suspense accounts with basic symbols 3875, 3885, and 3886. The data can be obtained for both the accounting transactions and the 1329 treasury transactions.

**Completion Date:** March 31, 2016

5. Implement a formal process to identify and track which suspense account transactions each of the accounting activities are responsible for clearing and ensure that the transactions are corrected within 60 business days.

**Management Comments:** DFAS concurs with this recommendation. DFAS Indianapolis established a suspense team in January 2016 to monitor and coordinate required clearances of Army non-exempt suspense transactions. This team supplements controls already existing, including consolidating all suspense items (exempt and non-exempt) in the monthly SAR (Suspense Activity Report). All accounting activities must report their open items, to include overaged suspense balances. This report further requires the explanation and estimated completion date for resolving suspense items aged greater than 60 days old.

**Completion Date:** Completed January 2016

**Recommendation B:** We recommend that the Director, Defense Finance and Accounting Service Indianapolis, in coordination with Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer and other Defense Finance and Accounting Service (DFAS) personnel:

1. Establish a special fund account to record and report the revenue-generating transactions, as well as request the establishment of deposit fund accounts to properly record the Uniformed Services Thrift Savings Plan transactions and tax collections.

**Management Comments:** DFAS concurs with this recommendation. Below is the status of each of the accounts:

- a. Revenue – DFAS along with our customers have developed a proposal for legislative change which, if approved, would begin during FY18 for all of the revenue funds. The proposal suggests setting up a special fund account (5000 series) for all the services/funds. The proposal was submitted May 23, 2016 and is currently going through the DFAS process which includes a review by the Office of General Council.

## Defense Finance and Accounting Service (cont'd)

**Estimated Completion Date:** October 31, 2017

- b. Thrift Savings Plan (TSP) - DFAS submitted a formal request to Office of the Secretary of Defense (OSD) on May 18, 2016 for new TSP accounts. Per email from OSD they are requesting the new accounts from the Office of Management and Budget (OMB). Once approved, and Treasury has set up the new accounts, DFAS will begin making the system changes.

**Estimated Completion Date:** October 31, 2017

- c. Federal Insurance Contribution Act (FICA)/Federal Income Tax Withholding (FITW) – DFAS is currently identifying the necessary system change requirements for all the services to begin transferring funds and processes to the FICA/FITW deposit accounts.

**Estimated Completion Date:** October 31, 2016

2. Request, as necessary, from Office of Management and Budget and the Department of the Treasury, approval to establish special and deposit fund accounts.

**Management Comments:** DFAS Concur.

**Estimated Completion Date:** October 31, 2017

3. Revise the DoD Financial Management Regulation to reflect the changes in how the accounts are to be used.

**Management Comments:** DFAS Concur. As part of implementation in all three scenarios, regulations will be identified and updated.

**Estimated Completion Date:** October 31, 2017

## Glossary

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**Absolute value.** The sum of the positive values of the debit and credit transactions without regard to the sign (plus or minus).

**Aging Transactions.** Transactions are aged according to how long the transactions have been in a suspense account.

**Army Fund Balance with Treasury Tool (AFT).** An automated tool created by the Army and DFAS to perform a reconciliation of the FBWT account balances at the transaction level.

**Cleared Transactions.** Transactions that have been corrected and transferred from the suspense account to the proper account.

**Collection.** Funds received from individuals or organizations, in the form of cash, check, credit card, IPAC, voucher deduction, or billing/adjustment voucher.

**Deposit Funds.** Accounts established to record amounts held temporarily by the Government until ownership is determined or held by the Government as an agent for others (See Appendix B).

**Disbursement.** Cash, check, electronic funds transfer, Intra-governmental Payment and Collection System (IPAC), or interfund payments that liquidate an established obligation, disburse amounts previously collected into a deposit fund account, or provide cash in advance of performance.

**DoD Component Entities.** A reporting entity within DoD required by OMB to prepare stand-alone audited financial statements, such as the Department of the Army, Department of the Navy, and Department of the Air Force General Funds and Working Capital Funds; Military Retirement Fund; and U.S. Army Corps of Engineers Civil Works.

**Exempt Account.** Terminology DFAS used to identify suspense accounts (F3800 series fund group) from which DFAS did not attempt to clear the transactions within 60 business days or otherwise age the transactions. The Army exempt suspense accounts were 21F3845 (Personal Property Sales Proceeds), 21F3875.2 (Budget Clearing Account-Exempt), and 21F3882 (Uniformed Services Thrift Savings Plan [TSP] Withholdings).

**Intra-governmental Payment and Collection (IPAC).** IPAC provides an automated, standardized, interagency expenditure instrument for Federal Program Agencies. It facilitates intra-governmental federal e-commerce by transferring funds, with related descriptive data, from one Federal Program Agency to another on a real-time basis.

**Materiality.** The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles, while other matters are not important. The auditor's responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected. Design materiality is the portion of the preliminary estimate of materiality that has been allocated to line items, accounts, or classes of transactions (such as disbursements or collections). Test materiality is the materiality actually used by the auditor in testing a specific line item, account, or class of transactions.

**Net Value.** The sum of the debit and credit transactions.

**Nonexempt Account.** Terminology DFAS used to identify suspense accounts in which collection and disbursement transactions were held temporarily, pending clearance to the applicable account. Transactions in these suspense accounts were subject to the 60-business-day clearance requirement. The Army non-exempt accounts were 21F3875.1 (Budget Clearing Account–Nonexempt), 21F3880 (Check Cancellations and Overpayments), and 21F3885.7 (Intra-governmental Payment and Collection [IPAC] System).

**Problem Disbursements.** Specific disbursements that have not been properly matched with corresponding obligations.

**Special Funds.** Accounts used for receipts earmarked for specific purposes and the expenditure of these receipts (see Appendix B).

**Suspense Account.** A clearing account established by the Treasury to temporarily hold unidentifiable general, special, or trust fund collections that belong to the Federal Government until they are classified to the proper receipt or expenditure account by the Federal entity (see Appendix B).

**Suspense Account Report (SAR).** A report prepared by DFAS-IN that provides a monthly status of transactions in Army suspense accounts and is also used to create monthly metrics for the Office of the Secretary of Defense, using account balances reported by accounting activities to DFAS-IN.

**Treasury Account Symbol (TAS).** An identification code assigned by the Treasury, in collaboration with OMB and the owner agency, to an individual appropriation, receipt, or other fund account. As it pertains to Army suspense accounts, a TAS consists of the two-digit Treasury Index, with an “F” preceding the last four digits of the 3800 series fund group.

**Treasury Index (TI).** Funds and accounts authorized by Acts originating in the Congressional Armed Service Committees and appropriated to the Department of Defense. TI 21 equates to a Department of the Army account. From a budgetary resources perspective, the “Fourth Estate” is comprised of about 50 distinct agencies, organizations, or funds that receive Defense-wide appropriations (TI-97). The TI-97 funding (both General Funds and Working Capital Funds) constitutes roughly one-fourth of the Department’s resources.

## Acronyms and Abbreviations

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<b>AFT</b>	Army Fund Balance With Treasury Tool
<b>DDRS</b>	Defense Departmental Reporting System
<b>DFAS</b>	Defense Finance and Accounting Service
<b>DFAS-IN</b>	DFAS–Indianapolis
<b>FBWT</b>	Fund Balance With Treasury
<b>FMR</b>	Financial Management Regulation
<b>GLAC</b>	General Ledger Accounting Code
<b>IPAC</b>	Intra-governmental Payment and Collection
<b>OSD</b>	Office of the Secretary of Defense
<b>OMB</b>	Office of Management and Budget
<b>OUS(D)(C)</b>	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer
<b>SAR</b>	Suspense Account Report
<b>SBR</b>	Statement of Budgetary Resources
<b>TAS</b>	Treasury Account Symbol
<b>Treasury</b>	Department of Treasury
<b>TI</b>	Treasury Index
<b>TSP</b>	Thrift Savings Plan



# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

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